

## Module 3—Interest Income

# Tax Tutorial

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In this tax tutorial, you will learn about [interest income](#).

Interest income may be taxable or tax-exempt.

All interest income is reported on the tax return, even if it is tax-exempt.

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## Module 3—Interest Income

Interest is the charge for the use of borrowed money.

In most cases you will earn interest if you let others use your money.

Your money earns interest when it is

- deposited in accounts in banks, savings and loans, and credit unions.
- used to buy certificates of deposit or bonds.
- lent to another person or business.

Interest is considered unearned income because money, not a person, is working to earn the income.

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## Module 3—Interest Income

Taxable interest income is earned from

- savings and checking accounts.
- U.S. Savings Bonds.
- savings certificates (certificates of deposit or CDs).
- money market certificates.

Tax-exempt interest income is earned from bonds issued by entities in states, cities, counties, or the District of Columbia, such as:

- port authorities.
- toll-road commissions.
- community redevelopment agencies.
- qualified volunteer fire departments.



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## Module 3—Interest Income

### Quick Check!

Check your understanding of the concepts you have learned by completing this Quick Check. When you have completed the two sets of questions, click the *Check My Answers* button at the bottom of the page.

Answer the following multiple-choice questions about interest income by clicking on the correct answers.

- 1 ) Interest income is earned on all of the following except
  - A. U.S Saving Bonds. *No answer given: the correct answer is B. Interest income is earned on U.S. Savings Bonds, deposits in savings accounts, and deposits in credit union accounts, but not on rental properties.*
  - B. rental properties.
  - C. deposits in savings accounts
  - D. deposits in credit union accounts.
  
- 2 ) Which statement is not true?
  - A. Interest is the charge for the use of money. *No answer given: the correct answer is D. The U.S. government does in fact pay interest.*
  - B. Interest income is considered unearned income.
  - C. Interest income may be taxable or tax-exempt.
  - D. The U.S government does not pay interest.

**Determine whether the interest income is taxable or tax-exempt.**

**Answer the following questions by typing the words taxable or tax-exempt in the space provided.**

1 ) Alexa earned \$145 from money in her savings account.

A. Taxable No answer given: the correct answer is A. Interest income on the savings account is taxable.

B. Tax-exempt

2 ) LaKeisha earned \$135 on bonds issued by the Ohio Water Authority.

A. Taxable No answer given: the correct answer is B. Interest income on bonds issued by states is tax-exempt.

B. Tax-exempt

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## Module 3—Interest Income

Interest income is usually reported on Form 1099-INT.

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		Payer's RTN (optional)	OMB No. 1545-0112
		1 Interest income	<b>2007</b> Interest Income Form 1099-INT
		2 Early withdrawal penalty	
PAYER'S federal identification number	RECIPIENT'S identification number	3 Interest on U.S. Savings Bonds and Treas. obligations	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name		4 Federal income tax withheld	
Street address (including apt. no.)		5 Investment expenses	
City, state, and ZIP code		6 Foreign tax paid	
Account number (see instructions)		7 Foreign country or U.S. possession	8 Tax-exempt interest 9 Specified private activity bond interest

Form **1099-INT** (keep for your records) Department of the Treasury - Internal Revenue Service

It is important to report each Form 1099-INT separately.

Taxable interest income is reported on the tax return, even if the taxpayer does not receive Form 1099-INT.

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**Module 3—Interest Income****Quick Check!**[View Form 1099-INT](#)

Review Form 1099-INT for Maurice Lewis by clicking the button *View Form 1099-INT*. Then, answer the following questions by typing your answers in the space provided. To assess your answers, click the *Check My Answers* button at the bottom of the page.

1 ) How much taxable interest income did Maurice earn?

Type your answer here No answer given: the correct answer is \$78.21. This is the amount in box 1.

2 ) Did Maurice earn any interest on U.S. Savings Bonds?

A. Yes No answer given: the correct answer is B. There is no entry in box 3.  
B. No

3) Did Maurice have any federal income tax withheld on the interest he earned?

A. Yes No answer given: the correct answer is A. Box 4 indicates \$15.64 of federal income tax withheld.  
B. No

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☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.  <b>Second County Bank 678 Center Road Any Town, US XXXXX</b>		Payer's RTN (optional)	OMB No. 1545-0112  <b>2007</b>  Form <b>1099-INT</b>	<b>Interest Income</b>
		1 Interest income <b>\$ 78.21</b>		
		2 Early withdrawal penalty <b>\$</b>		
PAYER'S federal identification number <b>10-0000001</b>	RECIPIENT'S identification number <b>111-00-0000</b>	3 Interest on U.S. Savings Bonds and Treas. obligations <b>\$</b>	<b>Copy B For Recipient</b>  This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
RECIPIENT'S name  <b>Maurice Lewis</b>  Street address (including apt. no.) <b>369 Maple Street</b>  City, state, and ZIP code <b>Any Town, US XXXXX</b>		4 Federal income tax withheld <b>\$ 15.64</b>		5 Investment expenses <b>\$</b>
		6 Foreign tax paid <b>\$</b>		7 Foreign country or U.S. possession
		8 Tax-exempt interest <b>\$</b>		9 Specified private activity bond interest <b>\$</b>
Account number (see instructions)				

Form **1099-INT**

(keep for your records)

Department of the Treasury - Internal Revenue Service



## Module 3—Interest Income

### Lesson Summary

Interest is the charge for the use of borrowed money.

Interest income can be taxable or tax-exempt.

Interest income is reported on Form 1099-INT.

All taxable interest income is reported on taxpayer's return, even if it does not appear on Form 1099-INT.

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## Module 3—Glossary

### Glossary

***interest*** —the charge for the use of borrowed money.

***taxable interest income*** —interest income that is subject to income tax. All interest income is taxable unless specifically excluded.

***tax-exempt interest income*** —interest income that is not subject to income tax. Tax-exempt interest income is earned from bonds issued by states, cities, or counties and the District of Columbia.

***interest income*** —the income a person receives from certain bank accounts or from lending money to someone else

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